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ABSTRACT

A review of business German textbooks reveals that few give significant attention to accounting terminology. Both German majors and business majors enrolled in business German need to be introduced to the balance sheet and income statement. It is possible to devote one or two class sessions to accounting by limiting content to a minimal but solid understanding of a "T-account", a simplified balance sheet and income statement, and how they interact. This involves three tasks: making the teacher comfortable in a foreign discipline, providing a limited selection of the most essential vocabulary, and offering a class drill in the form of a game or simulation. Concepts are more readily accepted when presented in the foreign language. It is important to keep in mind that the audience is mixed and may not be expert in accounting. Key concepts to introduce include the nature of assets, using assets well, degrees of liquidity, variance in accounting for assets, the structure of the T-account, the concept and organization of the balance sheet, the fundamental equation of double-entry accounting, and the need for the income statement. These elements are illustrated in a simulation of a German retail clothing business. (MSE)

# TEACHING ABOUT THE INCOME STATEMENT AND BALANCE SHEET IN A BEGINNING BUSINESS GERMAN COURSE

by

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Teaching About the Income Statement and Balance Sheet in a Beginning Business German Course

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Accounting is often referred to as "the language of business," and every student of business is required to take at least an introductory accounting course. Thus it seemed reasonable to assume that a course on "business German" would include some discussion of accounting terminology and the object of this paper, as initially conceived, was to examine the treatment of accounting in current Business German textbooks. Surprisingly, I found that most texts failed to mention any accounting terminology. Even a recent arrival on the Business German textbook scene, the otherwise quite lively and well-conceived <u>Deutsche Wirtschaftssprache für Amerikaner</u> by Doris Merrifield, does not deal with accounting beyond a few references to debiting accounts and the need for a firm to be profitable (see below). In fact, Franz Bäumchen's <u>Der Kaufmann</u> with its four-paragraph treatment of "Der Monatschluss," is the most detailed discussion of accounting to be found.[1]

In contrast, many Business French textbooks, for example, include a whole chapter devoted to "la comptabilité," although it must be added that, here too sometimes, financial statements might be reproduced with little explanation.[2]

Students enrolled in Business German courses tend to fall into two groups: those majoring in business with an interest in German who want to internationalize their perspectives, and those who are German majors wanting to add a "practical" component to their studies. Business majors will enjoy translating the concepts already familiar to them in their native language, whereas language majors need to be introduced to the framework for calculating an entity's net worth and gain or loss from its business activity. Both students need to be reminded of the fundamental concept that a business acquires assets in order to engage in a profit-making activity, and that those assets must produce an adequate return for the investors who provided the funds to acquire the assets in the first place. An introduction to the interaction of the balance sheet and the income statement is a useful and important step in the right direction.

The aim of this paper is to provide the German teacher with a lesson plan enabling him or her to present one or two class sessions on accounting limiting the content to a

minimal but solid understanding of a "T-account," a simplified balance sheet and income statement, and how they interact. The first task then, is to make the teacher feel at ease in a foreign discipline, the second is to provide a limited selection of the most essential vocabulary, and lastly, to offer a class drill in the form of a game or simulation, permitting the students to prove that they understand the concepts while practicing the language.

It has been my experience that concepts are more readily accepted when presented in a foreign language. There is a "suspension of the rules" mentality that permits the student to accept the unusual or unfamiliar more readily. It should also be borne in mind that a child acquiring language learns much vocabulary without immediately understanding its signification. In a similar fashion, the exposure to the accounting language and its practice in the context of a social game will be a useful experience even when not entirely understood by all students. It will be at least as useful and comprehensible to the undergraduate student as the macro-economics currently presented in most business German textbooks.

In presenting a lesson on accounting to students in a beginning business German course, the following points should be kept firmly in mind:

1) You are addressing a mixed audience. The material being presented is simplified. Students with an accounting background may want to press on to details that are beyond the scope of your introduction and confusing to other students. You must remind them, that they are to concentrate on learning and exercising the German terminology presented.

2) Just because a student has an accounting background, does not mean that he or she is an expert in accounting. (By analogy, how well does a third year undergraduate German major understand German grammar?) Still, you can engage these students by having them help with the drills in German.

3) For those students (and teachers!) whose appetite has been whetted to pursue German accounting terminology further, the texts cited in the bibliography of this paper will be helpful independent reading sources.[3]

With the above points firmly in mind, you should try to get the following key concepts across:

First discuss the nature of assets (Vermögensgegenstände), all those "things" that a company needs to perform its main activity or business. Cite examples such as the land and buildings, the machinery,

trucks, office furniture, etc. Try to stay away from abstractions such as intangible assets like copyrights and goodwill, which may confuse or distract some students.

Your students need to understand that a company must use the assets to create more assets--that there is a continual cycle of acquiring funds to buy assets which are sold at a gain (we hope) to get more funds, which again are used to acquire more assets. Like a loaf of bread under the influence of yeast (the business activity), our company grows bigger and bigger. If the business activity is not successful enough (the loaf doesn't grow quickly enough), investors will pull their money out, leaving the company with a shortage of funds. So a key point for the students to understand is that assets must be "turned over" from cash to assets to cash. The quicker this turnover, the more profitable the company. A company can not afford to have assets sitting idly by. Cash must be invested in an account that earns interest, a truck that is sitting idly by not needed by the company should be "liquidated" into cash, which can then be invested either in an interest earning account or in another asset that the company can use to be productive--in otherwords, profitable. To quote from Merriweather:

> "Ein gesundes Unternehmen muss wirschaftlich und rentabel sein. Wirtschaftlichkeit bedeutet das in DM berechnete Verhältnis von Kosten und Leistung. Je grösser die Leistung im Verhältnis zu den Kosten ist, desto wirtschaftlicher ist das

Unternehmen. Rentabilität zieht das eingesetzte Kapital in Betracht. Wenn das investierte Vermögen nicht mehr Reingewinn einbringt als der Haben-Zins auf einem Spaarkonto, dann rentiert sich das Unternehmen nicht." (page 144)

Having conveyed the importance of utilizing assets well, we should also explain that assets differ in their degree of liquidity. Cash is the most liquid since it can easily be transported and converted into any other asset. A building (that was initially acquired with liquid cash) is not easily transported or sold, is used for a long time by the company and is thus among the least liquid assets.

Now we are ready to talk about accounting for our assets. Assets are listed in the order of liquidity. Whereas the American accounting system lists the most liquid first, the German lists assets in the reverse order. This is the only difference in accounting between the two systems that should concern us at this elementary level.

To make this discussion more concrete, we will use a simple clothing retail business, "Müller Mode," as an example. We will limit the assets of this firm to the following: A store building, a truck for pick-up and delivery, some office furniture and equipment (desks, counters, a cash register, etc), an inventory of clothing that we hope to sell, and cash in the bank. (Normally a company will have some cash on hand, too, but we want to

keep this simple). Our example must include one intangible asset:

accounts receivable, the promise of those customers who charged their purchases to pay soon. Since accounts receivable are expected to be collected soon--that is "liquidated" into cash --they are second only to cash in their degree of liquidity.

The businessman has traded one asset (inventory) for another asset (the right to receive cash soon). If, as is normlly the case, the receivable is greater in monetary terms than the asset we gave up, our total assets have grown in monetary terms, which

is the main goal of business.

Now let's list our assets:

| (AMERICAN) | (GERMAN) |
|---|---|
| Cash (most liquid) | Building (least liquid) |
| Accounts Receivable | Truck |
| Inventory | Furniture & equipment |
| Furniture & equipment | Inventory |
| Truck | Accounts Receivable |
| Building (least liquid) | Cash (most liquid) |

This list is further subdivided into <u>long-term</u> (called "fixed assets" that will be used for more than one year) and <u>short-term</u> (called "current assets" which will be consumed in a year or less):

VERMÖGEN

( assets )

ANLAGEVERMÖGEN — (fixed assets)

UMLAUFVERMÖGEN — (current assets)

In our example:

Gebäude (building)
Lieferwagen (delivery truck) — ANLAGEVERMÖGEN
Betriebsausstattung (furnishings)

Waren (merchandise inventory)
Forderungen (accounts receivable) — UMLAUFVERMÖGEN
Bank (cash in bank)

Now explain that each of these assets is recorded in monetary terms (the total cost, not the quantity) in a T-account (so called because it resembles the letter "T") which looks like this:

ACCOUNT NAME

DEBIT (SOLL) | CREDIT (HABEN)

Debits and credits seem to mystify the layperson, but they should ALWAYS be understood to mean nothing more than "left side" and "right side." A debit to an account is an

entry on the left side and a credit is an entry on the right.

Let's assume that our customer, Herr Kunde, buys several shirts by charging them. The total bill is DM 60. Thus we debit his account for DM 60:

| KUNDENKONTO Nr. 001—Herr Kunde | |
|---|---|
| 60.00 | |

The account is debited (belastet) on the "soll" side because Herr Kunde is supposed to pay (<u>soll</u> bezahlen) DM 60. Now let's say that Herr Kunde sends a partial payment of DM 30 several days later:

| KUNDENKONTO Nr. 001—Herr Kunde | |
|---|---|
| 60.00 | 30.00 |

Herr Kunde's account is credited (gutgeschrieben) on the "haben" side because that is what Herr Kunde <u>has</u> paid. This explanation of the origin of the terms "soll" and "haben" is much easier for the students to relate to than the Latin derivations of debit and credit. Again, however, be reminded that this terminology was transferred to other accounts for which the explanation no longer makes sense and that soll (debit) and haben (credit) should be simply remembered as "left" and "right" respectively.

To continue the example, let's assume Herr Kunde comes into the store and buys a suit for DM 500. charging it to his account. His account is then debited for that amount:

KUNDENKONTO Nr. 001--Herr Kunde

| | |
|---|---|
| 60.00 | 30.00 |
| 500.00 | |

Now let's assume it's the end of the accounting period (say, the end of the month) and our businessman needs to know the balance in all of his accounts. He would balance Herr Kunde's account by drawing a line under the last of the entries and writing the difference between the debit and credit side on that side which had the greater amount (usually the debit side in the case of a customer's account since they normally owe the company some balance--it's seldom the other way around):

KUNDENKONTO Nr. 001--Herr Kunde

| | |
|---|---|
| 60.00 | 30.00 |
| 500.00 | |
| 530.00 | |

Now the account has been "balanced" (saldiert) and can be continued as before. As a final illustration on this topic, let's assume Herr Kunde erroneously transferred DM 600 (instead of the DM 530 owed) to the store's bank account.

This would be credited to his account resulting in the unusual case of a credit balance in an asset (from the store's point of view) account:

<u>KUNDENKONTO Nr. 001--Herr Kunde</u>

| | |
|---|---|
| 60.00 | 30.00 |
| 500.00 | |
| 530.00 | |
| | 600.00 |

Note that the account has a credit balance of DM 70.00. It is important for the student to understand why this is an asset account. If Herr Kunde had paid cash instead of charging, the company would have had the asset "cash" which is easy for students to conceptualize. In our example later on, we will use only <u>one</u> account entitled "Forderungen" or "accounts receivable" to summarize all of the outstanding customer charges for simplicity's sake.

Once the students feel comfortable with the concept of a T- account, then it's time to introduce the trickiest part, namely the concept that for the total of assets owned by the company there is an equal amount of ownership claims against those assets. Simply put: on the one hand we have all the "things" that the company owns and needs to do its business, on the other hand are all the people who paid for it. This means that we now introduce the <u>BALANCE SHEET</u>, which is a listing of all the assets and liabilities of the

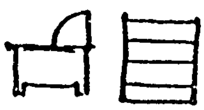
fig. 1

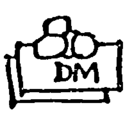
# DIE BILANZ

## MÜLLER MODE

| AKTIVA | | PASSIVA | |
|---|---|---|---|
| **ANLAGEVERMÖGEN** | | | |
| GEBÄUDE | 110.000 | EIGENKAPITAL | 138.000 |
| LIEFERWAGEN | 25.000 | | |
| BETRIEBSAUSSTATTUNG | 5.000 | HYPOTHEK | 90.000 |
| **UMLAUFVERMÖGEN** | | | |
| WAREN | 15.000 | | |
| FORDERUNGEN | 80.000 | VERBINDLICHKEITEN | 57.000 |
| BANK | 50.000 | | |
| + \| − | | − \| + | |
| SUMME | 285.000 | | 285.000 |








ACTIVA = PASSIVA

WAS BESITZT DIE FIRMA? = WER HAT DAS FINANZIERT?

company at a given time (Stichtag). It "balances," that is to say on the left we have assets listed in monetary (DM) cost values and on the right side are the liabilities and owners' equity or share of the company in exactly the same DM amount. The balance sheet balances because the total cost or funds needed to buy the assets owned by the company had to have been provided either by the owners (shareholders in the case of a corporation) or by outside creditors (lenders).

The fundamental equation of the "double-entry" accounting system:

ASSETS = LIABILITIES + OWNERS' EQUITY

or in laypersons' terms,

ASSETS = LOANS + YOUR INVESTMENT or

THINGS OWNED = AMOUNT INVESTED BY OWNERS AND LENDERS

is reflected in the balance sheet format shown in Figure 1.

Now it is extremely important to note that there are T-accounts for both the asset side and the liabilities/owners equity side, that these accounts both have DEBIT on the left and CREDIT on the right BUT THE PLUS AND MINUS SIGNS ARE MIRROR IMAGES OF ONE ANOTHER! This means that a debit to an

asset account increases the quantity in that account and a credit decreases it. For the other half of the balance sheet, the Liabilities and Owners' Equity, side the reverse holds: a debit decreases these accounts, whereas credits increase them. If the above few points are understood, then the mystery of debits and credits will soon be vanquished.

A person concerned about his weight will step on the scale at regular intervals to "take inventory." So, too, the businessman at least once a year (required by German law), but more usually once a month, will take inventory and prepare a balance sheet listing all his assets (and of course the other side that goes with it--whose assets are they, lenders or owners?). If the weightwatcher notices a difference in weight, he might want to know why or how this difference came about--did he exercise more and burn off more calories, or did he eat less? Again, the businessman would also like to know why the balance increased or decreased.

Now we can make the link to the income statement. As assets are consumed in the production of income, they are transformed into expenses and transferred into temporary accounts. The wages paid to employees, the utility bills that are paid for electricity needed to operate the store, the cost of the goods that are sold, all are examples of the asset accounts, in this case cash and inventory, that are

Fig. 2

| (ASSETS) ACTIVA | (LIABILITIES & O.E.) PASSIVA |
|---|---|

(CASH)
\+ BANK −

| | |
|---|---|
| | 5.000 ① |
| | 1.000 ① |

REVENUE
− EINNAHMEN +

| | |
|---|---|
| ③ 20.000 | 20.000 * |

\+ −
LÖHNE (AUFWAND)

| | |
|---|---|
| ① 5.000 | 5.000 ② |

\+ −
STROM (AUFWAND)

| | |
|---|---|
| ① 1.000 | 1.000 ② |

− +
(INCOME SUMMARY)
VERLUST u. GEWINN

| | |
|---|---|
| ② 5.000 | 20.000 ③ |
| ② 1.000 | |
| ④ 14.000 | |

− +
(OWNERS EQUITY)
EIGENKAPITAL

| | |
|---|---|
| | 14.000 ④ |

(an increase in owners' equity = profit, a decrease = loss)

① PAID EXPENSES (SAMPLE: WAGES, ELECTRICITY) — DEBIT THE EXPENSE CREDIT CASH

② TRANSFERRED EXPENSES (CREDIT EXPENSE, DEBIT SUMMARY ACCOUNT) TO INCOME SUMMARY

③ TRANSFERRED REVENUES TO INCOME SUMMARY (DEBIT REVENUES CREDIT INCOME SUMMARY)

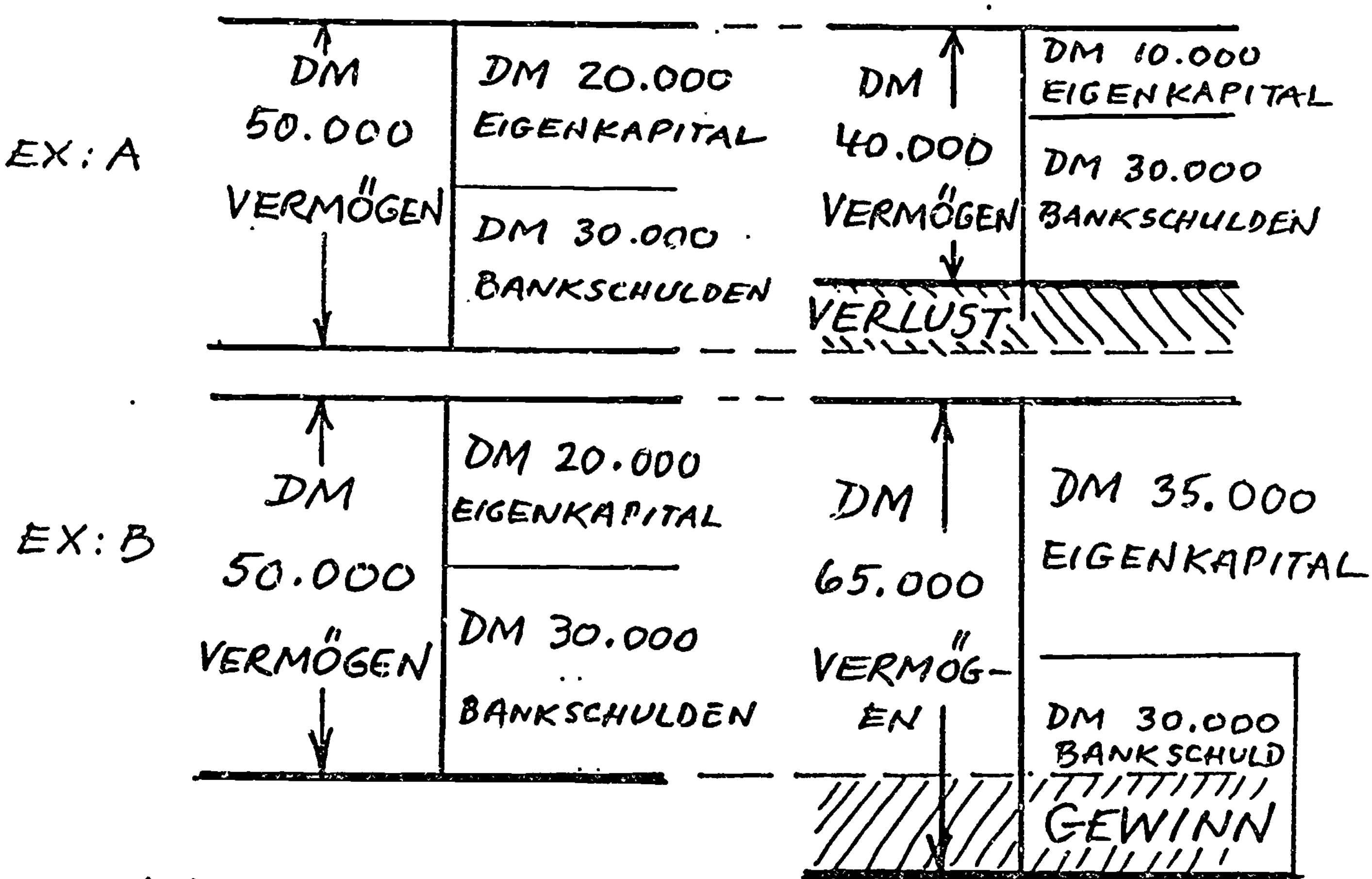
④ CLOSE INCOME SUMMARY ACCOUNT TO OWNERS' EQUITY (DEBIT INC. S. CREDIT O.E.)

* COLLECTED OVER THE ACCOUNTING PERIOD

fig. 3

die BILANZ
THE BALANCE SHEET

(BEGINNING) (ENDING)




THE OWNER BEARS THE RISK & REWARDS

IN EXAMPLE "A" THE ASSETS AND OWNERS' EQUITY SHRANK DUE TO A DM 10.000 LOSS

IN EXAMPLE "B" THE ASSETS AND OWNERS' EQUITY GREW BY A DM 15.000 NET INCOME

reduced (credited) while expense accounts are increased (debited). On the equity side of the balance sheet are temporary revenue (income) accounts (in our example just the one account called "revenue"). At the end of each accounting period the expense accounts are matched against the revenue accounts in another temporary account called "income summary" to determine the net gain or loss. It is this information that is displayed on the income statement. When the expenses and revenues have been gathered in the income summary account, the net balance (either revenue or expense, whichever is greater) is transferred to the owners' equity account (Figure 2). If there is a net income, the owner's equity side of the balance sheet increases. On the other hand, a net loss decreases the owner's equity. Figure 3 will help to clarify this.

Your students must be made aware that it is the owners of the business who suffer any losses or enjoy any gains. Creditors get only their loan principal plus a fixed rate of interest income, regardless of how well the company does. It is the owners who take the greater risks, and with higher risk comes the potential for higher returns, which is the driving force of capitalism.

I hope this paper has shown the extent to which accounting can and should be introduced in a beginning

Business German course and the benefits of such an effort. The vocabulary and accounting exercise appended to this paper should make the foregoing discussion come alive.